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Puerto Rico governor signs bill for \$2 billion in tax relief

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SAN JUAN (Reuters) - Puerto Rico Governor Ricardo Rosselló signed into law on Monday legislation to provide nearly \$2 billion in tax relief over five years amid concerns by the U.S. commonwealth's federally created fiscal oversight board about how the island will fund the tax break.



FILE PHOTO: Puerto Rico Governor Ricardo Rossello speaks during a Facebook live broadcast in the library of the governor's mansion, in San Juan, Puerto Rico January 24, 2018. REUTERS/Alvin Baez/File Photo

Rosselló said the new law will improve the island's investment climate, while providing tax cuts for residents and businesses.

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The legislation, which was introduced in April, establishes an earned income tax credit of as much as \$2,000 annually per worker and slightly reduces individual and corporate income tax rates, as well as the sales tax on prepared food. It further eliminates a tax on business-to-business transactions for those establishments with annual revenue of less than \$200,000, affecting almost three-quarters of island businesses.

Most of the changes will take effect next year, the governor said.

To fund the tax cuts, the bankrupt U.S. commonwealth is counting on \$1.7 billion in additional revenue over the next five years from increased efforts to collect taxes. The \$200 million annual cost of the earned income tax credit was previously included in the government's projected expenditures.

Puerto Rico has been in federal court since 2017 trying to restructure roughly \$120 billion in public debt and unfunded pension liabilities under a form of bankruptcy.

After enacting the law, Rosselló told reporters that the island's fiscal oversight board has certified that the tax measures are "revenue-neutral."

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The fiscal board, however, raised flags over one provision in the new law that calls for the legalization of unauthorized video gaming machines. That move would generate some \$160 million in additional annual revenue, according to government estimates.

"The oversight board has repeatedly expressed its concerns that the video lottery provisions included in the legislation are not revenue neutral because the government and legislature have not put forth sufficient evidence that these changes will not cannibalize existing Commonwealth Fiscal Plan revenues," Natalie Jaresko, the board's executive director, said in a statement.

A statement from Rosselló's office said video lottery revenue will not fund the administration's tax reform measures, but will be mainly allocated toward police retirement and municipalities' healthcare costs.

Jaresko said there will be no further comment until Puerto Rico certifies that the tax reform law complies with the island's fiscal plan. That certification is due by Dec. 19.

Reporting by Luis Valentin Ortiz in San Juan, Puerto Rico and Karen Pierog in Chicago; Editing by Matthew Lewis

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